

R 190803Z MAR 09
FM AMEMBASSY ATHENS
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C O N F I D E N T I A L ATHENS 000339

SIPDIS

TREASURY/IA: LUKAS KOHLER

E.O. 12958: DECL: 03/18/2019

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SUBJECT: GREEK RESPONSE TO DEMARCHE TO EU MEMBER STATES ON
EFFECTS OF THE FINANCIAL CRISIS IN CENTRAL AND EASTERN
EUROPE

REF: STATE 23758

Classified By: Ambassador Daniel V. Speckhard for reasons 1.4 (b), (d)

¶1. (C) The Ambassador delivered reftel points to Minister of Economy and Finance John Papathanassiou on March 13. The Minister fully agreed that it is critical for the U.S. and EU countries to work together to address difficulties the global crisis is causing in Central and Eastern Europe in order to solidify the gains made in this region over the last two decades. He emphasized that for its part, the GoG is making it clear to Greek banks that it is important to continue lending in the region. This is not only for the financial and economic stability of the region, but for its political stability as well. The Minister emphasized that while one of the conditions of the GoG's 28 billion euro bank aid plan is that Greek banks use the aid only in Greece, the GoG is encouraging banks to use their own assets to continue lending in the region. (Note: Most Greek banks with subsidiaries or branches in Southeast Europe separately have told us they have moved to a strategy of lending financed purely by new local deposits. End Note.)

¶2. (C) Minister Papathanassiou indicated that the issue of increasing IMF resources was a topic of discussion at the recent EcoFin meetings in Brussels, and that the GoG is in agreement with the EU position. He did not, however, comment on the issues of expanding EU assistance beyond the 25 billion euro Balance of Payments facility, exploring options to assist non-EU countries, or the proper burden-sharing between the IMF and the EU for EU and non-EU countries in the region. He also did not address the GoG's views on revisiting euro adoption procedures and requirements. (Note: In a separate conversation on March 16, the Minister told the Ambassador that Greece recently had been approached by the European Commission and asked to provide funding for Romania as part of the broader support package being developed by the EC. The Minister indicated Greece has agreed to do so, but he did not specify to the Ambassador the amount or the mechanism through which this support would be provided. End Note.) Regarding the issue of the size of stimulus packages, the Minister merely recapped that the debate within the EU is focused on the desire by the bigger countries, like Germany, to focus on spending wisely as opposed to more.

¶3. (C) On March 16, EconOff raised reftel points with the head of Greece's Council of Economic Advisors, George Sfakianakis, who attends EcoFin meetings with the Minister. Sfakianakis voiced similar themes as the Minister; however, he also indicated that representatives from at least one Greek bank with exposure in the region (National Bank of Greece or NBG) has argued to the GoG that Greece ought to be urging the EU both to provide more support to the region and to consider revisiting euro adoption procedures. (Note: EconOff has heard this same point voiced by representatives of NBG. NBG argues that more flexibility now on the part of the EU will lessen the long-term costs of bailing out countries in Southeast Europe should the crisis deepen, exacerbating the impact and increasing the costs of a bailout

and returning to economic health in the long-run. End Note.)

While Sfakianakis believes there is merit to this position, he does not think that the GoG is in the position to make this argument within the EU.

SPECKHARD